GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3042
ANSWERED ON:16.03.2001
RBI GUIDELINES TO CREDIT RATING AGENCY
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Will the Minister of FINANCE be pleased to state:

(a) whether the RBI has asked credit rating agencies to share with it key information on corporates;

(b) if so, whether the Credit Rating Agencies are not following any rules or guidelines in this matter;

(c) if so, the reasons therefor;

(d) the extent to which the Credit Rating Agencies manipulating the market and capital flows;

(e) whether there is any law which can be applied to control aberrant behaviour of Credit Rating Agencies by RBI; and

(f) if so, the details of other enforcement enablement with RBI in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a) to (c): According to information received from Reserve Bank of India, in an informal meeting withCredit Rating Agencies, held on 12th January, 2001, RBI had requested the rating agencies, namely, CreditRating Information Services of India Ltd.,Credit Analysis and Research Ltd., ICRA Ltd., and Fitch Ratings India Pvt. Ltd., to share details of the following:

(i) `long term rating spectrum` of the ratings done by each of them, with reference to companies in general. In respect of Non-Banking Financial Companies (NBFCs), they were requested to furnish names of the companies also:

(ii) upgradation/downgradation of ratings with specific reference to the extent of volatility and the period over which it was spread, with rationale.

(d) to (f): All the credit rating agencies in India are regulated under the Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999. Under the provisions of the said Regulations, inter-alia, the following regulatory requirements are to be followed by the credit rating agencies:

(i) every credit rating agency (CRA) shall treat, as confidential, information supplied to it by the client;

(ii) all CRAs shall abide by the codeof conduct given in the said Regulations which enjoin upon it not to be a party to (a) creation of false market, (b) passing of price sensitive information to any capital market intermediaries or take any action which is unethical or unfair to investors,

(iii) the activities of CRAs are regulatedby Securities and Exchange Boardof India (SEBI), among other things, byundertaking inspection or investigation of books of accounts, records and documents;

In the event of failure to comply with the provisions of the SEBI Act, 1992 orthe Regulations made thereunder, CRA isliable to the penalties of suspension of registration or cancellation of registration.